FDIC State Profile

Winter 2004

Kansas

The Kansas economy showed strength in the third quarter of 2004.

- Total employment grew two consecutive quarters for the first time in nearly five years. More than 13,200 jobs were added in the second and third quarters, the largest six-month employment growth in six years (See Chart 1).
- Manufacturing growth in the third quarter provided further evidence of recovery that should continue into 2005. While the sector accounts for 13 percent of Kansas jobs, 28,000 of the 31,000 jobs lost during the downturn were manufacturing jobs.
- The unemployment rate in the third quarter remained unchanged at 4.7 percent, the lowest level in nearly three years. Unemployment has been declining or stable for four consecutive quarters.

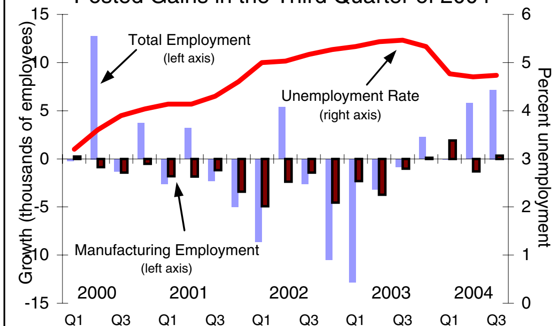
Banking performance remains solid.

- As the Kansas economy has rebounded, so have bank asset quality and loan volume (See Table 1). After declining two consecutive years to their lowest level since 1997, loans as a percent of assets increased 1.2 percentage points from one year ago at third quarter 2004.
- Overall earnings performance appears stable, though it is lower than levels reported several years ago. The proportion of unprofitable, established institutions in Kansas declined on an annual basis from 4.0 percent to 3.6 percent at third quarter 2004.

Hydrological drought conditions continue to stress northwest Kansas.

- The Kansas river system, including the Republican, Arkansas, and Cimarron rivers, has declined significantly over the past decade, affecting reservoir levels (See Map 1).
- Surveys of more than 1,250 wells in central and western Kansas show groundwater levels declined an average of 1.2 feet in 2003, more than the average decline in the 1990s.

Chart 1: Kansas Manufacturing Employment Posted Gains in the Third Quarter of 2004



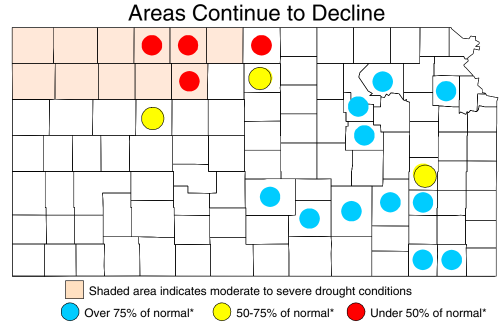
Source: Bureau of Labor Statistics/ Haver Analytics

Table 1: Asset Quality Improved and Capital Levels Increased As Earnings Continue to Decline Slowly

	September				
	2004	2003	2002	2001	2000
Capital					
Tier 1 Leverage Capital Ratio	9.60	9.42	9.52	9.62	9.78
Asset Quality					
Past Due Loan Ratio	1.57	1.80	1.91	1.89	1.69
Net Charge-off Rate	0.05	0.08	0.06	0.06	0.02
Earnings					
Pretax Return on Assets	1.30	1.32	1.45	1.46	1.59
Net Interest Margin	3.95	3.97	4.16	4.18	4.34

Source: FDIC. Figures are median values.

Map 1: Reservoirs and Lakes in Drought-Affected Areas Continue to Decline



* Current levels as of November 1, 2004 compared to 1996 -2000 average for same period.
Source: US Army Corp of Engineers, US Geological Survey, US Bureau of Reclamation, University of Nebraska, Lincoln: Drought Monitor

- Continuing water shortages could adversely affect agricultural irrigators, as well as hydroelectric and recreational operations.

Wichita's aerospace sector faces further uncertainty.

- Officials at Boeing, the largest aircraft manufacturer in the United States, said they will announce in early 2005 whether they will sell their commercial aviation operations in Wichita that employ 7,000 people.
- Workers at Boeing, Wichita's largest employer, face uncertainty about their jobs and level of wages with a new employer that would become a contracted supplier to Boeing.
- Wichita's aerospace employment has declined by 13,000 jobs, about 30 percent of the sector's jobs, since the contraction of the airline industry following the terrorist attacks of September 11, 2001 (See Chart 2). Boeing accounts for about 75 percent of aerospace industry employment in Wichita.

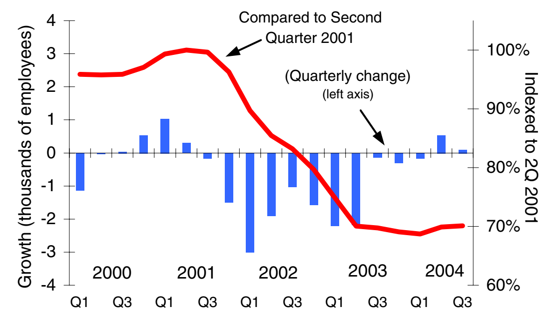
The long-term trend of core funding erosion has resumed.

- In the 1990s, a confluence of competitive factors, ranging from rapidly increasing stock prices to strong deposit growth in large banks and credit unions, made core deposits more difficult to acquire for community institutions.[1] As a result, core funding in these institutions dropped steadily in the 1990s (See Chart 3).
- Stock market weaknesses in 2001 and 2002 helped to stabilize core funding temporarily, as funds flowed from the markets into the safety of insured deposits.
- However, recent improvement in the stock markets again is luring funds out of community banks, and the long-term downward trend in core funding appears to have resumed. Core funds now make up just 72 percent of community bank assets in Kansas, an all-time low.

The number of bank offices has increased in rural Kansas despite depopulation.

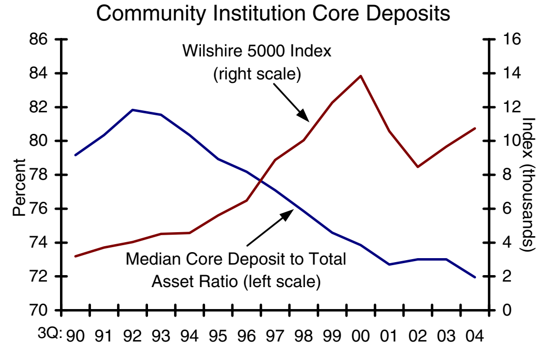
- With declining population, weak economic growth and lower levels of new bank activity, the rate of loss of hometown institutions in rural Kansas exceeds that of Kansas urban areas – about 3.4 percent versus 2.3 percent per year during the past decade.
- However, rural Kansas has seen an increase in its banking presence despite a net loss of 68 headquartered institutions. The number of banking offices operating in rural Kansas increased from 401 to 427 in the 10 years ending June 2004 (See Chart 4).
- Faced with lower market growth prospects and seeking opportunity, rural Kansas institutions are increasingly operating branches in urban areas. As a result, the proportion of branches located in urban areas has increased from 4.4 percent in 1994 to 13.6 percent in 2004. Currently, 26 rural institutions, representing 15.7 percent of all rural Kansas institutions, are operating 54 branch offices in urban areas.

Chart 2: Wichita Has Suffered Significant Job Losses in the Aerospace Sector



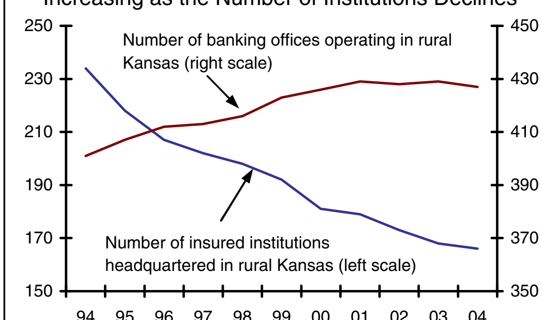
Source: Bureau of Labor Statistics/ Haver Analytics

Chart 3: The Stock Market Again Is a Lure for Community Institution Core Deposits



Source: FDIC, insured community banks and thrifts, Haver Analytics

Chart 4: Banking Offices in Rural Kansas Are Increasing as the Number of Institutions Declines



Source: FDIC. Bank and thrift summary of deposits data

[1]"Core deposits" are presumably stable sources of funds and include savings, checking, and money market accounts, as well as time deposits of less than $100,000.

Kansas at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	372	379	384	389	393
Total Assets (in thousands)	56,574,748	52,170,926	50,302,021	46,699,856	47,939,379
New Institutions (# < 3 years)	6	7	8	7	8
New Institutions (# < 9 years)	17	18	18	15	14

Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.60	9.42	9.52	9.62	9.78

Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.57%	1.80%	1.91%	1.89%	1.69%
Past-Due and Nonaccrual >= 5%	40	38	45	39	36
ALLL/Total Loans (median %)	1.45%	1.46%	1.39%	1.38%	1.39%
ALLL/Noncurrent Loans (median multiple)	1.84	1.91	1.65	1.87	2.04
Net Loan Losses/Loans (aggregate)	0.26%	0.31%	0.32%	0.30%	0.26%

Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	16	17	21	21	14
Percent Unprofitable	4.30%	4.49%	5.47%	5.40%	3.56%
Return on Assets (median %)	1.05	1.05	1.15	1.12	1.19
25th Percentile	0.68	0.72	0.80	0.75	0.87
Net Interest Margin (median %)	3.94%	3.97%	4.16%	4.18%	4.34%
Yield on Earning Assets (median)	5.45%	5.77%	6.69%	7.98%	8.17%
Cost of Funding Earning Assets (median)	1.49%	1.81%	2.51%	3.83%	3.89%
Provisions to Avg. Assets (median)	0.07%	0.10%	0.11%	0.08%	0.07%
Noninterest Income to Avg. Assets (median)	0.60%	0.62%	0.60%	0.59%	0.57%
Overhead to Avg. Assets (median)	2.92%	2.91%	2.92%	2.95%	2.94%

Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	74.52%	72.68%	73.72%	74.25%	74.84%
Loans to Assets (median %)	60.96%	59.80%	61.29%	62.98%	62.76%
Brokered Deposits (# of Institutions)	53	49	44	42	33
Bro. Deps./Assets (median for above inst.)	2.84%	2.61%	3.35%	2.72%	2.04%
Noncore Funding to Assets (median)	16.96%	15.66%	15.15%	15.13%	14.90%
Core Funding to Assets (median)	70.94%	72.19%	71.98%	72.13%	73.44%

Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	222	234	236	243	249
National	94	99	105	105	107
State Member	39	29	26	24	20
S&L	10	10	10	10	10
Savings Bank	7	7	7	7	7
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	284	21,776,155	76.34%	38.49%
Kansas City MO-KS	44	15,165,694	11.83%	26.81%
Wichita KS	27	7,913,218	7.26%	13.99%
Topeka KS	10	10,967,567	2.69%	19.39%
Lawrence KS	7	752,114	1.88%	1.33%